

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2301 - SB 2686

February 15, 2020

SUMMARY OF BILL: Establishes that each December, the State Funding Board will certify the growth rate of the General Fund based on actual revenue collections from the prior fiscal year. Establishes the following changes in the excise tax rate as a result of the change in General Fund growth:

- If the General Fund growth is more than 2.0 percent, the excise tax rate will be reduced by 0.1 percent for the tax year beginning on or after the subsequent January 1.
- If the General Fund growth is more than 1.0 percent but less than 2.0 percent, the excise tax rate will remain unchanged for the tax year beginning on or after the subsequent January 1.
- If the General Fund growth is less than 1.0 percent but not negative, the excise tax rate will increase by 0.1 percent for the tax year beginning on or after the subsequent January 1.
- If the General Fund growth is negative, the excise tax rate will increase to the maximum amount of 6.5 percent for the tax year beginning on or after the subsequent January 1.

Establishes that the minimum rate of excise tax is 6.0 percent, and the maximum excise tax rate is 6.5 percent.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenue - \$12,225,000/FY20-21
\$43,643,300/FY21-22**

Other Fiscal Impact – General Fund revenue estimates beyond FY20-21 are currently not available; therefore, fiscal impacts in FY22-23 and subsequent years cannot be quantified with reasonable certainty.

Assumptions:

- According to Fiscal Review Committee staff estimates, the growth rate for the General Fund in FY19-20 and FY20-21 will exceed 2.0 percent, which will result in a 0.1 percent decrease in the excise tax rate in tax year 2021 and an additional 0.1 percent decrease in the excise tax rate in tax year 2022.
- The FY20-21 General Fund growth rate is estimated to exceed 2.0 percent relative to the estimated General Fund collections in FY19-20, even after the estimated 0.1 percent

adjustment to the excise tax rate. Therefore, this fiscal analysis assumes that both 0.1 percent tax rate adjustments will occur.

- The current excise tax rate is 6.5 percent. Excise tax collections under current law are estimated to be \$1,945,700,000 in FY20-21, \$2,013,803,123 in FY21-22, and \$2,084,289,981 in FY22-23.
- Entities paying the excise tax make four estimated payments, each payment equal to 20 percent of their liability for the current year or previous year. They also make a fifth payment with their returns for the remaining 20 percent. For taxpayers with a tax year beginning January 1, 2021, their first payment would be due in April 2021 and their second payment in June 2021 (both months fall in FY20-21). If their liability is less, due to the tax rate decrease pursuant to this legislation, presumably they will reduce their estimate payments accordingly. Therefore, 40 percent of the reduction in the tax due will occur in FY20-21. In FY21-22 taxpayers will reduce the remaining 60 percent for tax year 2021 and 40 percent for tax year 2022.
- Based on the five payments a year required for companies that pay the excise tax, and the decrease in excise tax rate, it is estimated that the decrease to tax year collections will be \$30,562,490 ($\{(\$1,945,700,000 \times 0.4) + (\$2,013,803,123 \times 0.6)\} / 6.5\% \} \times 0.1\%$) in tax year 2021 and \$63,264,469 ($\{(\$2,013,803,123 \times 0.4) + (\$2,084,289,981 \times 0.6)\} / 6.5\% \} \times 0.2\%$) in tax year 2022.
- The estimated decrease in state revenue will be \$12,224,996 ($\$30,562,490 \times 0.4$) in FY20-21 and \$43,643,282 ($\{(\$30,562,490 \times 0.6) + (\$63,264,469 \times 0.4)\}$) in FY21-22.
- General Fund revenue estimates beyond FY20-21 are currently not available; therefore, fiscal impacts in FY22-23 and subsequent years cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

/abw